

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Relational Investors

Fourth Quarter 2005

Investment Type: U.S. Corporate Governance Fund

Inception Date: March 1996

Capital Commitment: \$750 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 8.3 million	\$2,574.8 million
Distributed Capital:	\$ 83.4 million	\$2,189.1 million

Market Value (12/31/05): \$ 1,120.8 million

Investment Strategy:

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 12

Organization: Relational Advisors, the M&A investment bank, has separated from the Relational Group and is now known as RA Capital Advisors. Relational Investors and RA Capital Advisors are now completely separate with separate principals. Ralph Whitworth and David Batchelder are now the two principals of Relational Investors, while Joel Reed and Jim Zehentbauer are the two principals of RA Capital Advisors.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, Relational has outperformed its benchmark by 15.85% on an annualized basis.

	Since Inception
Relational Investors (IRR)	24.53%
S&P 500 Index (IRR)	8.68%
Excess Return	15.85%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Active Value
Fourth Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: September 1998

Capital Commitment: \$350 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.1 million	\$ 354.6 million
Distributed Capital:	\$ 49.3 million	\$ 375.0 million

Market Value (12/31/05): \$ 56.6 million

Investment Strategy:

Active Value Capital employs a corporate governance strategy aimed at unlocking intrinsic value in under performing, publicly traded, European companies. Active Value Capital targets fundamentally strong companies with leading positions in their respective industries that suffer from poor management, have a capital structure in need of restructuring, have undervalued brands or franchises, suffer from over-expansion or are in industries likely to undergo consolidation. Each investment will consist of either 25% of a company's outstanding preference shares or 10% of a company's ordinary shares where preference shares do not exist. Active Value then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 5

Organization: Active Value has indicated that the portfolio is likely to complete liquidation and returned to investors during the first half of 2006.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, Active Value's Total Composite, which is comprised of Class A, Class CIP and Pledge A, underperformed its benchmark by -1.47% on an annualized basis. The Class A & CIP Composite underperformed by -2.55%, while Pledge A outperformed by 0.65% on an annualized basis.

Since Inception	Total Composite	Class A & CIP Composite	Pledge A
Active Value (IRR)	6.41%	5.34%	8.53%
FTSE 250 Index (IRR)	7.88%	7.89%	7.88%
Excess Return	-1.47%	-2.55%	0.65%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Focus
Fourth Quarter 2005

Investment Type: U.K. Corporate Governance Fund

Inception Date: November 1999

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 199.9 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (12/31/05): \$ 287.5 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE 250 futures.

Summary Analysis:

Number of Investments: 13

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, the Hermes UK Focus Fund has outperformed its benchmark by 3.02% on an annualized basis.

	Since Inception
Hermes UK (IRR)	6.11%
FTSE All Share (IRR)	3.09%
Excess Return	3.02%

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT
SPARX Asset Management
Fourth Quarter 2005

Investment Type: Japanese Corporate Governance Fund

Inception Date: January 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 81.0 million	\$ 625.8 million
Distributed Capital:	\$ 13.3 million	\$ 227.9 million

Market Value (12/31/05): \$ 670.7 million

Investment Strategy:

The SPARX Value Creation Fund targets underperforming or undervalued companies based in Japan with a market capitalization between \$300 million and \$3 billion. The SPARX Research Platform, which is a research team of ten analysts, will use quantitative and qualitative screens to identify approximately 40 target companies from the SPARX database of 2,500 companies. The Value Creation group then will conduct in-depth research on these target companies by initiating contact with company management. These companies typically exhibit one or more of the following traits: low valuation, potential for balance sheet optimization, or potential for profit improvement. The fund looks to invest in 5-10 companies per year with 5-20% of net asset value dedicated to each investment. It will actively engage and work in partnership with management or major shareholders to unlock the investment's value over a specified period of time. The performance objective for the fund is the Topix Index + 150 basis points.

Summary Analysis:

Number of Investments: 9

Organization: The VCI team added one analyst, Hideaki Hattori, during the quarter. Hideaki is responsible for investment research and engagement with portfolio companies.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, SPARX has outperformed its benchmark by 7.87% on an annualized basis.

	Since Inception
SPARX Value Creation (IRR)	41.59%
Topix Index (IRR)	33.72%
Excess Return	7.87%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Focus
Fourth Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: August 2003

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 100.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (12/31/05): \$ 170.4 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

Summary Analysis:

Number of Investments: 18

Organization: Hermes Europe added a new manager, Antonio Salerno. Antonio is responsible for engaging portfolio companies.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, the Hermes Europe Focus Fund has outperformed its benchmark by 2.45% on an annualized basis.

	Since Inception
Hermes Europe (IRR)	26.67%
FTSE Europe ex-U.K. (IRR)	24.22%
Excess Return	2.45%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Taiyo Pacific Partners/WL Ross

Fourth Quarter 2005

Investment Type: Japanese Corporate Governance Fund

Inception Date: July 2003

Capital Commitment: \$199.6 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.3 million	\$ 299.7 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (12/31/05): \$ 526.3 million

Investment Strategy:

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

Summary Analysis:

Number of Investments: 18

Organization: Taiyo hired Colin Butnick as a Director and Stephen Gray as Director of Operations. Stephen is helping in the process of transitioning the back and middle office from the WLR offices in New York to the Taiyo offices in Monterey.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, Taiyo has outperformed its benchmark by 11.68% on an annualized basis.

	<u>Since Inception</u>
Taiyo (IRR)	40.95%
Topix Index (IRR)	29.27%
Excess Return	11.68%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Knight Vinke
Fourth Quarter 2005

Investment Type: European Corporate Governance Fund

Inception Date: June 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 1.2 million	\$ 266.8 million
Distributed Capital:	\$ 8.8 million	\$ 91.3 million

Market Value (12/31/05): \$ 222.7 million

Investment Strategy:

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

Summary Analysis:

Number of Investments: 5

Organization: Knight Vinke hired Paul Gorman to serve as Vice President of Finance and to handle the administration of the fund. Edouard Sterns' ownership in the GP was bought out by existing partners.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, Knight Vinke has outperformed its benchmark by 8.86% on an annualized basis.

	Since Inception
Knight Vinke (IRR)	26.57%
FTSE World Series Europe (IRR)	17.71%
Excess Return	8.86%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Shamrock Capital
Fourth Quarter 2005

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2004

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 8.3 million	\$ 58.4 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (12/31/05): \$ 70.1 million

Investment Strategy:

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

Summary Analysis:

Number of Investments: 4

Organization: Shamrock Activist Value Fund II, L.P. was created during the quarter. This is a parallel vehicle to the fund in which CalPERS is invested. Shamrock currently has \$455 million in total commitments and is still looking for a junior analyst.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through December 31, 2005, Shamrock has outperformed its benchmark by 18.36%.

	Since Inception
Shamrock (IRR)	30.68%
Russell 2000 (IRR)	12.32%
Excess Return	18.36%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Blum Capital
Fourth Quarter 2005

Investment Type: U.S. Corporate Governance Fund

Inception Date: July 2005

Capital Commitment: \$125 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 15.9 million	\$ 49.9 million
Distributed Capital:	\$ 0.4 million	\$ 1.0 million

Market Value (12/31/05): \$ 50.3 million

Investment Strategy:

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

Summary Analysis:

Number of Investments: 13

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Blum has outperformed its benchmark by 21.09% since inception. However, the manager currently has a short tenure and current performance should be used as an indicator of future performance.

	Since Inception
Blum Capital (IRR)	4.60%
Russell 2000 (IRR)	-16.49%
Excess Return	21.09%